

## Chapter - 16 "Internal Audit"

- Topics to be covered:
- ✓ (1) Meaning, Objectives and Scope of Internal Audit
  - ✓ (2) Management Functions and Scope of Internal Auditing
  - (3) Integrity, Objectivity, Independence and Other Qualities of Internal Auditor.
  - (4) Performing Internal Audit Engagement
  - (5) Internal Audit Reports (SIA 370, 390)
  - (6) Internal auditors and External Auditors
  - (7) Misc. Topics

(1) Meaning, Objective and scope of Internal Audit:

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Independent Assurance \* on effectiveness of Internal Controls and Risk Mngt. Process

to (a) enhance governance; and

(b) achieve organisation goals and objectives.

\* Scope of Internal audit function may go beyond assurance so as to include Consulting / Advisory Role.

Statutory Requirements w.r.t. Appointment of Internal Auditor (Sec. 138 of Companies Act, 2013)

Prescribed Companies shall appoint Internal Auditor.

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Rule 13 of Companies (Accounts) Rules, 2014:

- ✓ (a) Every Listed Company;
- ✓ (b) Unlisted Public Companies —
  - (i) PUCB  $\geq 50$  Cr. during preceding FY; or
  - (ii) Turnover  $\geq 200$  Cr. during preceding FY; or
  - (iii) OLS Loan/Borrowings - Bank/PFI  $> 100$  Cr. at any point of time during preceding FY; or
  - (iv) OLS deposits  $\geq 25$  crore at any point of time during preceding FY.

✓ (c) Private Companies - (i) T/O  $\geq 200$  Cr. (ii) OLS loan/borrowings -  $> 100$  Cr.

Who can be appointed as Internal Auditor: CA; Cost Accountant or such other Professional as decided by BOD.

\* may or may not have COP.

\* may or may not be an employee of company.

V. Imp.

Activities performed by Internal audit function to achieve its objectives: (SIA-210 "Managing the Internal Audit Function")

(i) <u>Define</u>	Plan, scope and Methodology of I.A. function.
(ii) <u>Oversee and Monitor</u>	Audit Assignments - Planning, Execution, Reporting of findings and sub. disclosure of reported observation.
(iii) Plan, acquire, engage; and Review - Performance, Training and development	of Professional staff, talent and other resources.
(iv) Identify, source, Engage and Manage	External Experts and Technical solution
(v) Communicate and Engage	with key stakeholders - Progress and achievement of objectives.
(vi) Develop and Maintain	Quality Evaluation and Improvement Program

Responsibilities of Internal Auditor: - LEARNING, and Noting -

## (8) Management Function and scope of Internal Audit:

### Imp: (A) Development of Internal Audit Plan:

- Internal auditor should develop and document a plan for internal audit engagement, in consultation with TCWG, so as to conduct the audit in an efficient and effective manner.
- Plan should be developed in such a manner that all business processes covering both financial and operational activities get reviewed.
- While developing the audit plan, ensure adequate balance of the following:
  - (a) Risk underlying the business processes;
  - (b) Risk Appetite of the Organisation;
  - (c) Value that Internal audit can provide to the Organisation;
  - (d) Efforts involved in conducting Internal audit for a particular activity;
  - (e) Coverage of all Auditable areas.

### (B) Scope of Internal Audit function: Includes the following :

- (i) Review of Internal Control System and Procedures
- (ii) " " System regarding Custodianship and safeguarding of assets.
- (iii) " " Compliance with Policies, Plans, Guidelines, Procedures, Regulations
- (iv) " " Organisation structure
- (v) " " Utilisation of Resource (economical, efficient and effective)
- (vi) " " accomplishment of goals and objectives
- (vii) " " System of collecting data to ensure that information generated is relevant and reliable.

### ✓ Review of Internal Control System

- (a) Assessing design, efficiency and effectiveness
- (b) Minimise the overall Internal audit risk
- (c) Considering limitation of Internal Controls
- (d) Continuity of I:C throughout period of Intended reliance.

- Review of Custodianship and Safeguarding of Assets:
- Verification - Existence of Assets
  - Segregation of duties - place
  - Review Control System - All assets-accounted
  - " " " - Intangible Assets
  - " means used for safeguard ag. loss.

- Review of Organisation structure:
- (a) Grouping of Activities → Authority and Responsibility.
  - (b) Organisation chart → Simple and Economical.
  - (c) Responsibilities of Managerial staff at Headquarters  
→ no overlapping with Head of operating unit.
  - (d) Span of Control
  - (e) Unity of Command
  - (f) Process of Managerial Development.

- Review of utilisation of Resources:
- Establishment of operating standards and Norms.
  - Op. Stds. and Norms → enough detailed - identify the operating responsibilities
  - Review methods of establishing stds.
  - Assumptions - Appropriate and Necessary
  - Identity - facilities - underutilised.
  - Reasons for wide divergence between actual performance and corresponding standards.

(3) Integrity, Objectivity, Independence and Other qualities of auditor: - Only Reading -